



# ARIZONA STATE RETIREMENT SYSTEM

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*Paul Matson  
Director*

## MINUTES OF A PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM OPERATIONS, AUDIT & LEGISLATIVE COMMITTEE

**Monday, August 6, 2018  
10:30 a.m., Arizona Time**

A quorum of the Operations, Audit & Legislative Committee (OALC) of the Arizona State Retirement System (ASRS) met in public session in the 14th Floor Conference Room of the ASRS Office, 3300 N. Central Avenue, Phoenix, Arizona 85012.

Mr. Clark Partridge, Chair of the OALC, called the meeting to order at 10:32 a.m.

The meeting was teleconferenced to the ASRS office at 4400 E. Broadway, Tucson, Arizona 85711.

### **1. Call to Order; Roll Call; Opening Remarks**

Mr. Clark Partridge, Chair, welcomed the attendees and expressed appreciation for those in attendance. Mr. Partridge also expressed appreciation for the time and effort devoted to creating the meeting materials and preparation for today's presentations.

Present: Mr. Clark Partridge, Chair  
Mr. Jim Hillyard, Vice-chair  
Mr. Rene Guillen

A quorum of the Committee was present for the purpose of conducting business.

### **2. Approval of the Minutes of the April 4, 2018 Public Meeting of the OALC**

**Motion:** Mr. Jim Hillyard moved to approve the Minutes of the April 4, 2018, Public Meeting of the OALC. Mr. Rene Guillen seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. Jim Hillyard – approved  
Mr. Rene Guillen - approved

### **3. Presentation, Discussion, and Appropriate Action Regarding the ASRS Employer Review and Data Analysis Plan**

Mr. Anthony Guarino, Deputy Director and Chief Operations Officer, introduced the topic indicating the overall objective is to increase employer compliance with more active engagement and proactive data analysis. If the Committee finds this approach acceptable, the ASRS will move toward providing periodic score cards to mark the ASRS' progress in its efforts as the duties of employer compliance are shifted from an audit function to a business function. Mr. Guarino turned the presentation over to Mr. Dave King, Assistant Director, Member Services Division (MSD).

Mr. King opened the discussion by introducing Ms. Courtney Micheau, Management and Benefits Analyst, who will co-present. Mr. King announced that Ms. Michele Briggs, Employer Relations Manager, could not be present today but would be in charge of this program and worked with the team to create the plan being presented today. Mr. King provided background stating that his team has been putting together a plan since the February Board meeting when the ASRS received approval to transfer employer compliance from Internal Audit (IA) to the MSD Employer Relations department. Although some data has been compiled, the presentation will outline the activities and processes that will take place during the upcoming year as MSD takes on this new responsibility. Mr. King reviewed the outline and provided additional background before turning the presentation over to Ms. Micheau who reviewed the "Goals", "Review-Monitor-Analyze" function, "Implementation Steps Taken" and "Employer Review Results." The goals identified for the first year are to: proactively address potential errors; partner with employers to build relationships and promote self-audits; and reduce risks by identifying and quantifying what the evolving issues are to reduce time and cost to both the ASRS and its employers. Ms. Micheau identified the three most common risks found in their research as; membership criteria, contributions, and return to work. Mr. King concluded the presentation summarizing the plan and reviewing the expected outcomes.

Mr. King and Ms. Micheau responded to questions from the Committee. Mr. Partridge offered a suggestion to continue to perform error queries monthly to maintain efficiency.

Mr. King took a moment to recognize Ms. Micheau and Ms. Briggs for their work on this project.

### **4. Presentation, Discussion, and Appropriate Action Regarding the ASRS Retiree Health Insurance Contract Renewal**

Mr. Guarino introduced the topic stating this is the last negotiation of the current contract with UnitedHealthcare (UHC). He further stated the review team challenged itself to increase the cost competitiveness of the ASRS plan offerings without diminishing quality and he believes the team accomplished this goal. Mr. Guarino turned the presentation over to Mr. King.

Mr. King indicated this year's focus was on the Senior Supplement (SS) plans servicing a membership group of approximately 13,000 members as those costs have been rising. SS plans offer coverage nationwide which is why it services such a large group. Extensive research was done taking into consideration feedback received from members to ensure coverages being offered were at the best possible rate for the same or better benefits. After reviewing the available documentation, the team – Health Insurance Advisory Committee retirees, UHC, ASRS staff and Segal – unanimously recommended to convert ASRS retirees and dependents

who are enrolled for 2019 in the ASRS SS plan automatically to a new Group Medicare Advantage and Prescription Drug (MAPD) PPO plan as of January 1, 2019. No action will be required by the member during Open Enrollment, although any retiree can enroll into the new PPO plan during Open Enrollment.

Mr. King reviewed a preliminary timeline of notification to members and highlighted some of the benefits resulting from negotiation efforts for the 2019 Plan Year. Mr. King reviewed the cost reduction members will experience with all ASRS plans in addition to savings that will be experienced utilizing the Retrospective Rate Agreement (RRA) funds. Mr. King concluded the presentation with a review of the RRA status, with Mr. Paul Matson providing a recap of the yearly savings a member would experience based on the ASRS plans being offered.

Mr. King, Mr. Matson and Mr. Guarino responded to questions from the Committee regarding the upcoming Request for Proposal for health insurance. Additionally, a brief discussion took place regarding the ASRS research of self-funded insurance options.

**Motion:** Mr. Rene Guillen moved to accept and forward to the ASRS Board for approval. Mr. Jim Hillyard seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. Jim Hillyard – approved  
Mr. Rene Guillen - approved

## **5. Presentation, Discussion, and Appropriate Action Regarding Notice of Rulemaking**

Ms. Jessica Thomas, Government Relations Officer and Rules Writer, presented to the Committee the current rulemaking in process addressing membership and provided a brief summary. Ms. Thomas referred back to an earlier comment made by Ms. Micheau indicating that the most common issue with employers and members is the misunderstanding of the membership criteria. The proposed rulemaking is an effort to clarify this. Ms. Thomas indicated the intention is to file the Notice of Docket Opening and Proposed Rulemaking by Friday, August 10, so it can be published in the register by the Secretary of State by the end of August. If timelines are met the ASRS plans to hold Oral Proceedings for public comment in early October, followed by the Governor's Regulatory Review Council review in order to have the proposed rules finalized to be effective by January or February 2019.

**Motion:** Mr. Jim Hillyard moved to approve proceeding with the rulemaking as proposed. Mr. Rene Guillen seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. Jim Hillyard – approved  
Mr. Rene Guillen - approved

## **6. Recently Conducted Employer Audits**

Mr. Harold Mackey, Chief Internal Auditor, announced this is the last of the formal employer audits to be presented as the compliance review function has now transferred to the Member Service Division (MSD).

Mr. Adel Korish and Ms. Rosie Tomforde, ASRS Audit Officers, reviewed the following final audits conducted by the Internal Audit Division (IAD).

- **City of Coolidge – Employer Audit**

The IAD had three findings from the City of Coolidge audit. The employer agreed with the findings and IAD's recommendations.

- **Gadsden Elementary School District – Employer Audit**

The IAD had two findings from the Gadsden Elementary School District audit. The employer agreed with the findings and IAD's recommendations.

- **Pima Prevention Partnership – Employer Audit**

The IAD had five findings from the Pima Prevention Partnership audit. The employer agreed with the findings and IAD's recommendations.

- **Pima Prevention Partnership/Pima Partnership Academy – Employer Audit**

The IAD had five findings from the Pima Prevention Partnership/Pima Partnership Academy audit. The employer agreed with the findings and IAD's recommendations.

- **Pima Prevention Partnership/Arizona Collegiate High School – Employer Audit**

The IAD had four findings from the Pima Prevention Partnership/Arizona Collegiate High School audit. The employer agreed with the findings and IAD's recommendations.

Mr. Partridge expressed the importance of the IAD continuing to coordinate and collaborate with MSD through the transition of duties but also maintaining the ability to perform audits of higher risk employers and targeted issues. Mr. Guillen also provided a suggestion of updated materials being created after the rules Ms. Thomas addressed in her presentation become effective, to assist employers in determining membership criteria. Mr. Guillen offered the suggestion of a reference sheet as the employer manual contains a lot of information to weed through. Mr. King advised the Committee that MSD is looking into creating materials similar to what Mr. Guillen has suggested.

## **7. Presentation, Discussion, and Appropriate Action Regarding the ASRS Fiscal Year 2019 Audit Plan**

Mr. Mackey presented the Audit Plan for Fiscal Year (FY) 2019 to the Committee. Mr. Mackey explained the plan is based on ongoing risk assessments being conducted by executive and senior management under the oversight of the OALC and in collaboration with the IAD. The plan also includes audits of areas that are not covered by existing risk assessments, the provision of consultative/advisory services and analysis of new agency processes and functions, in addition to items requiring annual review due to materiality or governance requirements. Mr. Mackey responded to questions from the Committee.

Mr. Partridge reminded staff to ensure any fraud activities or potential fraud is reported to the General Accounting Office (GAO) as part of the ASRS processes. Additionally, Mr. Partridge advised that the GAO has tools that might benefit the ASRS if staff would like to reach out to them.

**Motion:** Mr. Rene Guillen moved to accept and forward to the ASRS Board the Fiscal Year 2019 Audit Plan as presented. Mr. Jim Hillyard seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. Jim Hillyard – approved  
Mr. Rene Guillen - approved

## **8. Presentation, Discussion, and Appropriate Action Regarding the ASRS Security Program**

**Motion:** Mr. Rene Guillen moved to go into executive session pursuant to A.R.S. § 38-431.03(A)(2) for the purpose of discussion or consideration of records exempt by law from public inspection. Mr. Jim Hillyard seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. Jim Hillyard – approved  
Mr. Rene Guillen - approved

The Committee convened to Executive Session at 11:56 a.m.

The Committee reconvened to Public Session at 1:23 p.m.

*Mr. Partridge announced there would be a five minute recess prior to moving to agenda item #9. The Committee recessed from 1:24 p.m. to 1:30 p.m.*

## **9. Presentation, Discussion, and Appropriate Action Regarding ASRS Budget-Related Topics Including:**

- a. Presentation/update of the ASRS Appropriated and Continuously Appropriated Budget Plans to include the ASRS Administrative and Investment Spending Plans for FY 2019.**
- b. Presentation of the ASRS Appropriated and Continuously Appropriated Budget Request and the ASRS Administrative and Investment Spending Plans for FY 2020.**

Mr. Guarino introduced the topic and turned the presentation over to Mr. Russ Levine, Budget and Procurement Manager and Ms. Kerry White, Assistant Chief Investment Officer.

Mr. Levine opened the discussion by stating executive management has challenged them to reduce the overall administrative spending and staffing while ensuring we maintain levels to support key agency strategic objectives and priorities. Mr. Levine reviewed the following:

- ASRS FY 2019 Administrative Spending Plan which includes:
  - An appropriated special line item funding for the Oracle Forms and Reports Modernization project;
  - A continuously appropriated funding for the ASRS Benefits Disbursement project; and
  - An appropriated special line item funding to support a dedicated team to focus on ensuring security practices are built into information technology development processes.
- ASRS FY 2020 Budget Request which includes:
  - A decrease of \$500,000 in funding for a special line item for information technology related costs;
  - A decrease of \$400,000 in funding for the administration of the ASRS Long Term Disability program; and
  - A decrease of five appropriated FTEs.
- ASRS FY 2020 Administrative Spending Plan which includes:
  - An appropriated special line item funding for the Oracle Forms and Reports Modernization project;
  - A continuously appropriated funding for the ASRS Benefits Disbursement project; and
  - A continuously appropriated funding to begin the information Protection and Security three-plus-year project to increase the security of personally identifiable information and to create a more robust data logging system in internal ASRS applications.

Mr. Levine responded to questions from the Committee and turned the presentation over to Ms. White to review the Investment Spending Plan as follows:

- ASRS FY 2019 Investment Spending Plan
  - Includes expenditures for internal investment management, external investment management, and consulting fees in order to meet investment objectives.
  - Most costs remained relatively static; however, fees increased
- ASRS FY 2020 Investment Spending Plan
  - Continuously appropriated funding for the ASRS investment management program. Expenditures include investment management, consulting, legal, custodial banking, and external financial services fees, data subscriptions and analytics services, and FTE salaries and benefits, as well as travel, education, and other operational costs.

**Motion:** Mr. Jim Hillyard moved to accept and forward to the ASRS Board, (1) an appropriated budget request for FY 2020 in the amount of \$24,130,300, with an understanding there may ultimately be changes to the total appropriated budget amount due to legislative and executive recommendations and (2) the proposed administrative spending plan of \$30,799,700, and continuously appropriated investment spending plan of \$157,631,100 for FY 2020 subject to revised management projections, and to include private markets performance incentives and other fees when identified and paid. Mr. Rene Guillen seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. Jim Hillyard – approved  
Mr. Rene Guillen - approved

#### **10. Requests for Future Agenda Items**

None were requested.

#### **11. Call to the Public**

There were no members of the public in Phoenix or Tucson requesting to speak.

#### **12. The next regular public OALC meeting is scheduled for Wednesday, October 3, 2018, at 2:30 p.m., at 3300 N. Central Avenue, in the 14<sup>th</sup> Floor Conference room, Phoenix, Arizona.**

Mr. Partridge noted the next OALC meeting is scheduled for Wednesday, October 3, 2018 at 2:30 p.m.

#### **13. Adjournment of the OALC**

**Motion:** Mr. Rene Guillen moved to adjourn the meeting at 1:47 p.m. Mr. Jim Hillyard seconded the motion.

By a vote of 3 in favor, 0 opposed, 0 abstentions, and 0 excused, the motion was approved. The Trustee votes were as follows:

Mr. Clark Partridge – approved  
Mr. Jim Hillyard – approved  
Mr. Rene Guillen - approved

Respectfully Submitted,

Melanie A. Alexander  
Committee Administrator  
ARIZONA STATE RETIREMENT SYSTEM